

FORM MMS-4110 - - GENERAL INSTRUCTIONS.
OIL TRANSPORTATION ALLOWANCE REPORT

The purpose of Form MMS-4110 is to provide for the determination and reporting of costs for transporting oil under 30 CFR 206.55. Allowable transportation costs must be based upon the following criteria: (1) arm's-length based allowances--allowable cost incurred under an arm's-length contract; and (2) non-arm's-length based allowance--actual, allowable operating costs plus depreciation, plus a return on the undepreciated portion of the depreciable capital investment. Allowable costs divided by lease production yields the transportation allowance rate.

In accordance with 30 CFR 206.54, a payor may deduct from royalty payments the reasonable actual costs incurred by the lessee to transport oil from an onshore lease to a point off the lease; provided, however, no transportation will be granted for transporting oil taken as Royalty-in-Kind (RIK). Costs for transporting products, excluding waste products which have no value, which are not valued for royalty purposes will be allowed only if the lessee has secured prior approval from MMS.

For transportation costs incurred under arm's-length conditions, Schedule 1 will be used to determine the allowance and will be submitted to MMS with Page 1 of Form MMS-4110. For transportation costs incurred under other than arm's-length conditions or when transportation costs are a combination of arm's-length and non-arm's-length costs, Schedules 1, 1A, 1B, and 1C, as appropriate, will be used to determine the allowance and will be submitted to MMS with Page 1 of Form MMS-4110.

For purposes of this report, a sale means the disposition of oil under an arm's-length contract, non-arm's-length contract, or no contract situation. A transportation facility means a physical system associated with the transportation of oil from the lease to a point of disposition remote from the lease. A transportation segment is any mode of transportation from one point to another for which the payor can associate unique, identifiable costs. A transportation segment may be part of the total transportation facility or may constitute the entire facility. Examples of a transportation segment would be an origin-to-destination pipeline owned by the lessee to transport the oil to a point on a third-party pipeline through which the oil is transported under an arm's-length contract to the sales point.

Form MMS-4110, Page 1, is used to report the actual royalty allowance amounts claimed during the reporting period.

Form MMS-4110, Schedule 1, is used to accumulate segment costs and to compute the royalty allowance rate for a transportation facility. A separate Schedule 1 must be completed for each Lease Number/Agreement Number (if applicable), combination.

Form MMS-4110, Schedule 1A, summarizes operating, maintenance, and overhead costs for a non-arm's-length or no contract transportation segment.

Form MMS-4110, Supplemental Schedule 1A, is used to detail operating, maintenance, and overhead costs that could not be shown on Schedule 1A because of its limited space.

Form MMS-4110, Schedule 1B, summarizes depreciation and undepreciated capital investment costs for a non-arm's-length or no contract transportation segment.

INSTRUCTIONS FOR COMPLETING FORM MMS-4110, Page 1

1. Enter the payor name and address used to report royalties and transportation deductions on Form MMS-2014.
2. Enter the same payor code as used on Form MMS-2014.
3. Reserved for payor comment.
4. Enter the report type indicator as follows: "1" if this is an initial report for the lease and/or agreement number and product code in columns 7 through 9 (only column 12 will be completed); "2" if this is a routine form to report the reporting period actual data and current period estimated data (both columns 11 and 12 must be completed); or "3" if this is a corrected report to correct previously reported data. A corrected report requires a two-line entry. The first line reverses the original entry using a minus sign (-) in columns 11a, 11b, 11c, 12a, 12b, and 12c, as applicable, and the second line shows the correct entry.
5. Enter as the reporting period the period covered by the actual cost data for the transportation allowance being reported in column 11. If this is an initial report for start-up, the completion of column 11 is not applicable. Enter as the reporting period the period covered by the estimated cost data being reported in column 12. The reporting period will be controlled by the arm's-length/payor-owned indicator in column 10. If a "NARM" or "BOTH" is shown in column 10, the reporting period will be: (a) for the initial reporting period, beginning the month the lessee is first authorized to deduct a transportation allowance and ending at the end of the calendar year or when the transportation terminates, whichever is earlier, or (b) after the initial reporting period, beginning the first day of the calendar year and ending the last day of the calendar year or when the transportation terminates, whichever is earlier. If a "ARMS" is shown in column 10, the reporting period will be: (a) for the initial reporting period, beginning the month the lessee is first authorized to deduct a transportation allowance and ending when the contract or rate terminates, is modified or amended, or the end of the calendar year, whichever is earlier, or (b) after the initial period, beginning the first day after the period covered by the previous Form MMS-4110 and ending when the contract or rate terminates, is modified or amended, or the end of the calendar year, whichever is earlier.
6. Line count; i.e., the number of allowances being reported.
7. Enter the same Lease Number as used on Form MMS-2014.
8. Enter the same Agreement Number (if applicable) as reported on Form MMS-2014.
9. Enter the same product code as used on Form MMS-2014.
10. Enter an arm's-length/non-arm's-length indicator as follows: "NARM" if 100% of the transportation costs were incurred under non-arm's-length conditions; "BOTH" if transportation costs were a combination of arm's-length and non-arm's-length conditions; or "ARMS" if 100% of the transportation costs were incurred under arm's-length conditions.
11. Column 11 is used to report actual cost data for the reporting period. Enter in column 11a the royalty quantity transported during the reporting period. Enter in column 11b the lesser of the transportation allowance rate from Schedule 1, line 15, or 50 percent of the unit value of the oil unless MMS has approved a rate in excess of 50 percent. Enter in column 11c the royalty allowance amount determined by multiplying column 11a by column 11b. (Royalty quantity is the total of the monthly royalty quantities actually transported during the reporting period.)
12. Column 12 is used to report estimated transportation allowance for the current reporting period. The

transportation quantity or allowance rate may be the same as the actual quantity or rate reported in column 11. If so, enter the corresponding values from columns 11a, 11b, and 11c into columns 12a, 12b, and 12c accordingly. If the lessee believes the quantity or the rate for the current reporting period will be higher or lower than the reporting period, the estimates should be adjusted upward or downward accordingly. Care should be taken to ensure that estimates are as accurate as possible and that the royalty allowance amount does not exceed 50 percent of the expected royalty value without prior MMS approval. If a transportation allowance is not applicable to the current period, enter zeros in column 12a, 12b, and 12c.

Estimates for transportation facility start-up must be computed as follows:

If transportation costs are to be incurred solely under arm's-length conditions, enter in column 12a the estimated royalty quantity to be transported during the current period. In column 12b enter the allowance rate per unit as specified in the arm's-length contract and shown on Schedule 1, line 15. In column 12c enter the estimated royalty allowance amount computed by multiplying column 12a times column 12b. (Note: the allowance rate cannot exceed 50 percent of the unit value of the product without prior MMS approval.)

For transportation costs to be incurred under non-arm's-length conditions or a combination of both arm's-length and non-arm's-length conditions, Schedules 1, 1A, and 1B, as appropriate, shall be used in estimating the allowance rate. Enter in column 12a the estimated royalty quantity to be transported. In column 12b enter the lesser of the estimated transportation allowance rate from Schedule 1, line 15 or 50 percent of the expected unit value of the gas product transported for the selling arrangement unless MMS has approved a rate in excess of 50 percent. In column 12c enter the royalty allowance amount determined by multiplying column 12a by column 12b.)

Enter page totals on line 13.

If more than one Form MMS-4110 is submitted, add the amount on line 14 for each page and enter the total only once on line 14 of the last page of the Oil Transportation Allowance Report.

Indicate by checking the appropriate box whether the information should be considered proprietary or nonproprietary.